
10.1 Introduction

Shiseido is a leading Japanese cosmetics manufacturer that has been in operation for more than a century. With growth in domestic and international markets, specially those of emerging nations such as China, international development within the cosmetics industry is growing in importance. In Shiseido's mid-term management plan covering the 3 years between 2011 and 2013, the company continued to strive toward its goal of being a "global player representing Asia with its origins in Japan." The company outlined four growth strategies: the "global megabrand" strategy, the "Asia breakthrough" strategy, the "new frontier" strategy, and the "customer first" strategy. These strategies state that China's market will receive top priority as engine of growth, where significant management resources will be invested.

Shiseido set shop in China in 1981, upon request from the Beijing government, the time at which it began a partnership with a local company. Shiseido has a longer history in China's cosmetics market than any other foreign firm. Under the leadership of the company's current honorary chairman, Yoshiharu Fukuhara (he was head of the international division in 1981 at the time of its entrance into China), Shiseido set up a joint venture (JV) in 1991 and established the "Aupres" brand, developed exclusively for sale in China, as one of the top brands in the market. The global brand "Seseido," the "ZA" brand targeting a younger audience, and the "Uno" brand for men are high selling brands, thus establishing the business in China as a source of growth for Shiseido on the whole.

However, the Chinese market is under the radar of every cosmetic company worldwide, and competition in the country is intensifying. Apart from traditional department store channels, specialty shops, drugstores, and other cosmetics distribution channels are becoming more broadly available, making it necessary to market to a wider clientele. In addition, Shiseido is quality-oriented, establishing itself as a highly reliable brand. However, maintaining this brand name necessitates not only consideration for product safety but also preservation of relationships with the

Chinese government through strict compliance to its regulations and aggressive CSR activities.

Shiseido continues to explore new operating strategies in China to strengthen its brand within the market and transition itself from a Japanese cosmetics manufacturer into a global player representing Asia, including China.

10.2 Corporate Timeline and Overview

Shiseido's founder, Arinobu Fukuhara, was a chief pharmacist in a naval hospital. He aimed toward the practical application of the pharmaceutical system in Japan, a country where in 1872, Chinese herbal medicine was still very much the norm. Fukuhara began Shiseido as a western-style pharmacy, the first in Japan. The name "Shiseido" originates from a phrase in the Chinese classic text *I Ching*: "Zhì zāi kūn yuán, wàn wùzī shēng" ("How wonderful is the virtue of the land! All things are born here." The final two characters, "zī shēng," are pronounced "shisei" in Japanese and mean "born here"). In 1888, Shiseido launched the sale of Japan's first toothpaste. This paste, at the time, was eight times more expensive than abrasive powders for cleaning teeth, but nevertheless was popular because of its ability to remove stains on teeth and alleviate bad breath. In 1915, Fukuhara's third son, Shinzo, an experienced photographer, took over the company, beginning Shiseido's foray into cosmetics, launching "Eudermine" in the market. Eudermine, a product that is sold even today, is a scientifically derived facial lotion based on western medicine. Shiseido has strived to develop products of scientifically high quality, even within its cosmetic products lineup, comparable to pharmaceuticals.

One of Shinzo Fukuhara's favorite sayings was "let the products do all the talking." To that end, he put his best efforts into product names, containers, and packaging, which evoked the "product." The camellia flower trademark used by Shiseido for more than 120 years was designed by Shinzo himself. The first Miss Shiseido, the predecessor to today's in-store beauty consultants ("BCs" as they are popularly known) who help customers with beauty-related issues, debuted in 1934 (Table 10.1)

From the post-war period through the first half of the 1980s, a time of high economic growth, Shiseido experienced soaring sales in its domestic market. This strong growth is attributed to its business model, which consisted of voluntary chain stores built over a resale system in which stores were obligated to sell products in their retail stores at set prices. However, the bursting of the economic bubble in the latter half of the 1980s began a long period of stagnation for the company, coinciding with further diversification of consumer preferences, buying patterns, sales channels, and pricing. In addition, the resale system for cosmetics was abolished in 1997, kicking off a price war. In an attempt to boost flagging sales, Shiseido consistently introduced new brands and products into the market, diluting its sales efforts and beginning a vicious cycle of introducing numerous new products, dispersing marketing investments, reducing the power of their brand, and experiencing poor sales. The company then attempted to limit the number of brands, but with stagnant unit sales, competition in the Japanese market became fiercer and business remained

Table 10.1 Development of Shiseido Company Ltd.

Date	Events
September 1872	“Shiseido Pharmacy” established in Tokyo’s Ginza district
September 1915	Camellia flower selected as corporate trademark
December 1923	Creation of the chain store system
January 1937	Launch of Shiseido’s “Camellia Club”
September 1939	Completion of Shiseido Chemistry Research Laboratories (subsequently, the Number 1 Research Center, followed by the Shiseido Research Center in Shin-Yokohama)
May 1949	Listed on the Tokyo Stock Exchange
June 1957	Creation of Taiwan Shiseido Co., Ltd. (manufacturing began April of following year)
October 1959	Creation of Shiseido Trading Co., Ltd. (which changed its name to Shiseido Fine Toiletry Co., Ltd., and later merged with FT Shiseido Co., Ltd.)
August 1965	Creation of Shiseido Cosmetics (US), later consolidating with Shiseido International Corporation and currently known as Shiseido Americas Corporation
August 1968	Creation of Shiseido Cometic (Italy)
July 1980	Creation of Shiseido Deutschland and Shiseido France
February 1986	Acquisition of France’s CARITA
August 1988	Creation of Shiseido International Corporation, now known as Shiseido Americas Corporation
September 1988	Acquisition of US’ Zotos
January 1990	Creation of Shiseido America Incorporated
October 1990	Creation of Beauté Prestige International in France
October 1991	Completion of Gien Factory in France
November 1991	Creation of Shiseido Cosmenity Co., Ltd. (currently, “Shiseido Fitit”)
December 1991	Creation of Shiseido Liyuan Cosmetics Co., Ltd., a joint venture with Beijing Liyuan Co., Ltd.
July 1992	Completion of the Number 2 Research Center (currently Shiseido Research Center (Kanazawa Hakkei))
April 1995	Consolidation of 15 sales companies into Shiseido Cosmetics Sales Co., Ltd. (now operating as Shiseido Sales Co., Ltd.)
December 1995	Creation of Shiseido International Co., Ltd.
December 1996	Acquisition of Helene Curtis’s North America Professional Division
February 1998	Creation of joint venture, Shanghai Zotos Citic Cosmetics Co., Ltd.
September 1998	Creation of joint venture, Shiseido Dah Chong Hong Cosmetics Co., Ltd.
May 2000	Purchase of majority control of Laboratories Declor S.A.S. in France Acquisition of Bristol-Myers Squibb’s “Sea Breeze” brand Acquisition of “NARS” brand in the US
June 2000	Completion of the new Research Center (Shin-Yokohama)
October 2000	Creation of FT Shiseido Co., Ltd., transferring toiletry business to it from Shiseido Co., Ltd.

(continued)

Table 10.1 (continued)

Date	Events
May 2003	Headquarters moved to Shiodome office (in Tokyo's Minato-ku)
December 2003	Creation of Shiseido (China) Investment Co., Ltd. in Shanghai
March 2006	Closing of factories in Maizuru and Itabashi (consolidating six manufacturing sites into four)
May 2006	Transfer of sanitary products business to Unicharm Group
May 2007	Creation of Shiseido Russia wholly owned subsidiary
April 2008	Creation of Shiseido Vietnam wholly owned manufacturing company
July 2008	Creation of Shiseido Business Solution Co., Ltd.
March 2009	Dissolution of Shiseido Boutique Co., Ltd. and Beauty Technology Co., Ltd.
March 2009	Withdrawal from Boutique business
January 2010	Agreement to acquire Bare Escentuals in the US

Source: Various reference materials

sluggish because of a further decline in sale prices. In an effort to break out of this long period of slow growth, management reforms were put in place at the beginning of 2005 to expand overseas profits and create a post-resale domestic business model. In addition to securing a double-digit revenue growth overseas led by China, the company also greatly improved its profitability by disposing unprofitable divisions.

However, the latter half of the 2000s witnessed a stronger impact of new domestic distribution channels, such as drugstores and internet shopping, leaving Shiseido to fight difficult battles because of its dependence on department stores and specialty shops. In April 2012, Shiseido began a new marketing campaign that combined its traditional strength of in-store beauty consultants with information offered via the web to individual customers by creating a special web page “*Watashi+*.” As domestic sales weakened, overseas sales became more important because revenues in Asia and Oceania regions, particularly China, were increasing (Tables 10.2 and 10.3).

As of March 2012, the Shiseido group had 94 consolidated subsidiaries globally. The company's businesses cover manufacturing and sale of cosmetics, cosmetics tools, toiletries, hair and beauty products, beauty foods, and pharmaceuticals, as well as research and other services for each of the businesses (Table 10.4).

10.3 Shiseido's Global Business

Shiseido began its global operations in 1957 with sales of cosmetics in Taiwan. At the time, importing of cosmetics was banned in Taiwan; therefore, Shiseido began local production. In 1957, Shiseido Taiwan's marketing strategy was a system of chain stores with in-store beauty instruction, because the company realized an inadequate cosmetic-related knowledge among consumers in the country. Later, Shiseido

Table 10.2 Shiseido's revenue by division and region (units: in JPY 100 million)

	2007	2008	2009	2010	2011
Total	7,235	6,903	6,442	6,707	6,824
Domestic cosmetic:	4,239	3,976	3,838	3,584	3,538
Global	2,788	2,757	2,504	3,026	3,197
Other	208	170	100	97	89
Overseas					
Japan	4,607	4,300	4,081	3,838	3,813
US	566	507	457	855	822
Europe	1,038	1,000	824	843	905
Asia/Oceania	1,024	1,096	1,080	1,171	1,297

Source: 2012 Shiseido annual report

Table 10.3 Shiseido's operating margin by division and region

	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)
Total	8.8	7.2	7.8	6.6	5.7
Domestic cosmetic	10.1	8.1	10.1	9.3	8.3
Global	6.3	5.5	3.8	3.0	2.6
Other	4.8	5.1	10.5	11.4	9.9
Overseas					
Japan	6.5	4.0	5.6	4.1	3.0
US	6.1	5.6	6.0	1.6	5.0
Europe	8.3	7.8	6.5	7.2	5.5
Asia/Oceania	15.5	15.3	13.9	14.3	11.4

Source: 2012 Shiseido annual report

Table 10.4 Shiseido's major businesses and subsidiaries

Line of business	Primary divisions	Major companies
Domestic cosmetics business	Cosmetics division (manufacture and sales of makeup, makeup tools, and toiletry products)	Headquarters
	Professional division (manufacture and sales of hair and beauty products)	Shiseido Sales Co., Ltd.
	Healthcare division (manufacture and sales of beauty food products and general medical supplies)	Shiseido Fitit Co., Ltd.
	Other (manufacture and sales of domestic OEM products and catalog sales products)	Shiseido International Co., Ltd.
		FT Shiseido Co., Ltd.
		Shiseido Professional Co., Ltd.
		Shiseido Beauty Salon Co., Ltd.
		Shiseido Medical Co., Ltd.
		Etc.

Table 10.4 (continued)

Line of business	Primary divisions	Major companies
Overseas cosmetics business	Cosmetics division (manufacture and sales of makeup, makeup tools, and toiletry products)	Headquarters
	Professional division (manufacture and sales of hair and beauty products)	Shiseido America Corporation
		Shiseido America Incorporated
		Zotos International Incorporated
		Shiseido International Europe
		Shiseido International France
		Shiseido Deutschland
		Shiseido Cosmetici (Italy)
		Shiseido Europe
		Beauté Prestige International
		Laboratories Decleor S.A.S.
		Shiseido (China)
		Investments Co., Ltd.
		Shanghai Zotos Citic
		Cosmetics Co., Ltd.
		Shiseido Liyuan Cosmetics Co., Ltd.
		Taiwan Shiseido Co., Ltd.
		Etc.
Other	Frontier science division (manufacture and sales of cosmetics materials, pharmaceuticals, and medical-use cosmetics)	Headquarters
	Other (sales of clothing and fashion accessories, beverages, etc.)	The Ginza Co., Ltd.
		Shiseido Parlor Co., Ltd.
		Etc.

Source: 2012 Shiseido annual report

aggressively expanded its sales network into Asia, Europe, and the US under the “SHISEIDO” global brand, focusing on its specialty: anti-aging and skin-whitening products.

Shiseido aims to expand operations in Southeast Asian markets, with a stronghold in China. The “SHISEIDO” brand in Taiwan is highly sought-after. In Vietnam, Shiseido has been selling skin care and makeup products under the “SHISEIDO”

brand through agent stores since 1997. In response to growing needs caused by the high growth of the cosmetics market, accompanied by dramatic economic growth, Shiseido created Shiseido Cosmetics Vietnam Co., Ltd., and began operations in January 2010. On the other hand, a JV with the large local manufacturer Amore Pacific in the 1990s marked the beginning of Shiseido into the Korean market, but significantly strong local manufacturers and sales channels for which the general merchandising store market was critical, left them at around the 10th place in the country. Shiseido is yet to enter the Indian market in earnest, though they do have imported products for sale in luxury hotels and department stores via local distributors.

Although Shiseido has been successful in Asian markets, with the exception of Korea, it has fought way more difficult battles in the US market. In addition to the SHISEIDO brand that they introduced in the US more than 40 years ago, Shiseido has aggressively expanded by acquiring other domestic brands such as “Zotos,” “ZIRH,” and “NARS.” However, the US market is more price sensitive than the Japanese market, and North American operations have suffered losses for several years. In 2008, bold structural reforms, such as consolidation and elimination of US subsidiaries, reduced the losses. Nevertheless, business again became sluggish because of the impact of the global economic crisis caused by the crash in the financial markets. Shiseido acquired Bare Escentuals, a natural cosmetics manufacturer in the US, to rally its US business, and is expanding globally with Bare Escentuals’ “Bare Mineral” as a global strategic brand.

Shiseido began cosmetics sales in Europe with its 1968 entry into the Italian market. It entered the French market in 1980 through a JV with Pierre Fabre. France is, of course, the center of the fashion, cosmetics, and perfume industries, and is the source of the most up-to-date beauty information in the world. This meant that if Shiseido could be successful in the French market, the country in which top brands vie for business, it would be recognized in cosmetics markets throughout the world. In Europe, fragrances command approximately 30–40 % of the overall cosmetics market. However, this was a completely new arena for Shiseido at the time. Shiseido built a foundation there, in the heart of the fragrance industry, and is now beginning to attract the attention of the world’s perfume industry through collaborations with leading designers, image consultants, perfumers, and marketing directors. To respond to the uniqueness of the French market and successfully enter local markets, Shiseido created a subsidiary for a fragrance brand in France, “Beauté Prestige International,” and has recently implemented a strategy to make its entrance into the rest of Europe. For example, Shiseido purchased 100 % of Swiss resellers’ outstanding shares to strengthen operations there, and began sales in Switzerland in January 2010.

By capitalizing its overseas operations, overseas sales as of December 2011 accounted for 44.3 % of overall growth, spanning across 87 countries and regions. With 11 overseas factories and seven R&D centers in the US, Europe, China, and elsewhere, the company is actively pursuing a path of globalization.

10.4 China's Cosmetics Market and Shiseido's China Expansion

The central theme of Shiseido's global strategy is expansion into Asian markets. Sales in China, in particular, are of high priority because it is an enormous market with high growth expectation. With a population of 1.3 billion and high economic growth, China experienced active sales growth in its cosmetics market, growing into a formidable one. The world's leading cosmetics manufacturers have begun producing cosmetics within China, thereby intensifying competition. Shiseido has performed well in the market despite this competition, and SHISEIDO has gained popularity as Chinese women have become more fashion conscious.

In sync with China's reforms aimed at opening the country, the Chinese cosmetics industry has grown rapidly since the 1990s, continuing to experience double-digit annual growth to this day. In 1990, the size of the Chinese cosmetics market was a mere CNY four billion, as opposed to its 2011 growth of almost 30 times, at CNY 112.2 billion (Yano Research Institute (2012)). Japan's cosmetics market in 2010 was approximately JPY 1.5 trillion, and it can be said that China is soon approaching this level. In addition, skin and hair care products are its major product lines, similar to Japan. Unlike European and US markets, makeup and fragrance products have a smaller share in the market, but are said to be the future engines for growth in the Chinese cosmetics market.

Shiseido's entrance into the Chinese market goes back to 1981, when it sold imported products in ultra-luxury department stores and hotels after approval by the Beijing government. In 1983, with the finalization of the First Technology Cooperation Agreement with the Beijing government, Shiseido began production of the "Hau Zi" series of shampoo and conditioner products. Through this collaboration, Shiseido built a relationship of mutual trust with the Beijing government, resulting in the 1991 JV with the Beijing Liyuan Co., Ltd., through a request by the Beijing government, thus creating Shiseido Liyuan Cosmetics Co., Ltd. (SLC), with Shiseido Shiseido (China) Investments Co., Ltd., and Beijing Liyuan Co., Ltd. owning 40, 25, and 35 %, respectively, penetrating the Chinese market. At the time, cosmetics in China were sold by weight; however, Haruyoshi Fukuhara, the president of Shiseido at the time, unilaterally determined that the formation of the JV was the right thing to do. When the JV began in 1991, the domestically produced high-end cosmetics market was non-existent, and so Shiseido explored methodically the positioning of the cosmetics made by SLC within the market. Thus, the brand name of "AUPRES," which had European connotations was set, and, as a way to ensure identification of product quality as a result of Japan's superior manufacturing technology, "by SHISEIDO" was tacked onto the name. While the quality of these products was comparable to that of imported foreign brands, the prices were set at CNY 80–100, lower than the average CNY 200 of the imported goods. Cosmetics by local manufacturers at the time were sold at CNY 10–20, thus having concerns about its prices being too high. However, they stood firm, believing in the importance of its high-end brand strategy (Table 10.5).

Table 10.5 Development of Shiseido in China

1980	Yoshiharu Fukuhara, Intl. Vice President (current honorary chairman) visits China and forms effective relationship with Beijing government officials
1981	Sales of cosmetics, soaps, and toothpaste in Yaohan and other high-end department stores and hotels
1983	Production technology agreement with Beijing government for haircare products
1991	Creation of "Beijing Liyuan Co., Ltd." joint venture with Liyuan Co., Ltd. (currently known as Shiseido Liyuan Cosmetics Co., Ltd.)
1994	Production and sales of AUPRES brand made for Chinese market
1998	Creation of Shanghai joint venture with CITIC (Shanghai Zotos Citic Cosmetics Co., Ltd., "SZC")
2000	Development of Aupres J's brand of cosmetics for men
2001	Creation of Shiseido China Research Center Co., Ltd. (a wholly owned subsidiary created inside a Beijing joint venture company)
2003	Creation of Shiseido (China) Investments Co., Ltd. in Shanghai
2004	Start of chain store business
2005	Shiseido China Research Center Co., Ltd. moved to a new stand-alone building
2006	Sales of Urara brand, full-scale rollout of chain store business
2008	Creation of training centers for beauty consultants Selected as cosmetics sponsor for Shanghai World Expo Creation of Shiseido Life Quality Beauty Center
2010	Began selling "DQ" products especially made for drugstores; began professional line targeting high-end hair salons
2011	30th anniversary of Chinese operations; began "Shiseido Dream Come True Human Resources Project"

Source: Various reference materials

Yu Okazawa, who guided interactions with the Beijing government during two assignments in China during the 1980s and 1990s, and who boosted marketing for AUPRES, remarked, "We constantly faked stoicism for the sake of our pride in those early years." The company carefully researched high-end department store locations and customer demographics in an effort to make AUPRES the number one brand in cosmetic sales, only expanding its channels in a limited fashion. From these efforts, AUPRES became the top-selling brand at Yaohan, a department store catering to foreigners, and the products' increasingly strong reputation led to many inquiries from retail stores. However, the company focused on gaining top market share within their used channels, and thus put off short-term retail expansion, taking pains to ensure the products' establishment as a high-end brand. Okazawa also remarked, "At SLC, we were starting a factory, and would have very much liked to increase our points of sale to maintain high factory utilization, but we prioritized establishing ourselves as a high-end brand" (from a February 2010 interview). AUPRES was designated as the official cosmetic brand of Chinese athletes during the 2000 Sydney Olympics as well as the 2004 Athens Olympics, and is currently a widely popular brand sold throughout China.

While establishing its position in the high-end cosmetics market, Shiseido created a JV, Shanghai Zotos Citic Cosmetics Co., Ltd. (SZC), with Shanghai's CITIC

in 1998. This venture aimed to provide products to middle-class consumers. SZC, like SLC, began as an entity with both a sales group and a factory to roll out local production in China, and began by manufacturing and selling the “Za” brand for the Chinese market. Furthermore, SZC’s products did not use the Shiseido name anywhere to avoid damaging Shiseido’s image as a high-end cosmetics brand (note that the “S” in SZC stands for “Shanghai,” not “Shiseido”).

In 2003, the company created Shiseido China Co., Ltd. as a holding company for SLC, SZC, and other companies, and made SCH responsible for sales, while SZC specialized in the manufacturing of products for the middle-class market. This was made possible with China’s entry into the WTO, allowing foreign firms to create stand-alone sales companies. Za products were primarily sold in department stores, although, in 2004, the company began its specialty store business with the “Pure&Mild” product, exclusively made for the Chinese market. In 2006, the company further developed the “Urara” brand for its specialty stores. Through its specialty stores, SCH invested in sales efforts of its Za, Pure&Mild, and Urara brands without the Shiseido name, while simultaneously marketing SHISEIDO imported products in high-end department stores. In 2010, it developed a new brand, “DQ,” for sale at drugstores (i.e., stores that sell both cosmetics and pharmaceuticals), a distribution channel that was expected to grow in the future.

In 2001, Shiseido created Shiseido China Research Center Co., Ltd. (SRC) as a wholly owned subsidiary focused on R&D, leveraging the abundant Chinese medicine and beauty methods nurtured over China’s long history. This subsidiary is responsible for tasks such as discovering new materials in traditional Chinese herbal medicine and application of such materials for product development, researching cosmetics awareness and beauty practices among Chinese women, and developing products for the Chinese market. As of 2012, Shiseido’s Chinese subsidiaries (excluding Hong Kong) included the SCH holding company, with SLC, SZC, and SRC falling under it (Fig. 10.1).

Shiseido also invests heavily in CSR activities within China. Since 2005, the company has participated in state projects aimed at “improving the appearance of Chinese women” of all ages. Furthermore, Shiseido has supported tree-planting projects, the opening of the Hope Elementary School, and artists. Unique to the cosmetics industry, it has taught women with bruises, white spots, scars, and other

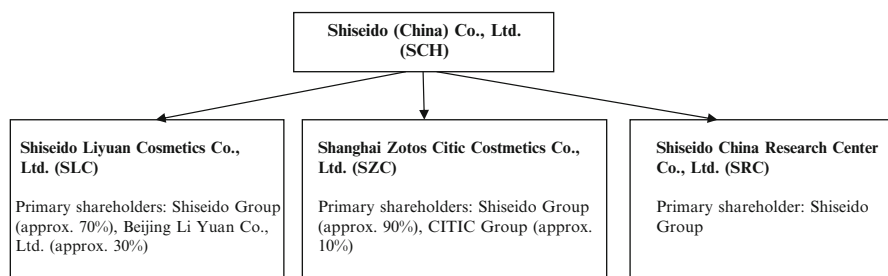


Fig. 10.1 Structure of Shiseido group companies in China (as of 2012)

serious skin troubles how to conceal them with cosmetics. In May 2010, Shiseido became the cosmetics industry sponsor of the Shanghai World Expo, the first Japanese company to be a sponsor for that exposition. As the cosmetics manufacturers selected by the Shanghai World Expo Coordination Bureau, Shiseido provided cosmetics, perfumes, and sunscreen to event personnel as well as instructions on makeup application.

10.5 Marketing Strategy in China

Distribution channels for cosmetics can be classified into three groups: department stores, specialty stores, and drugstores. Shiseido has implemented a product strategy for each of these channels in China. High-end products such as the “Clé de Peau Beauté” or SHISEIDO are imported and sold at high-end department stores. AUPRES and its higher-end version SUPREME AUPRES, both made exclusively for the Chinese market, are sold in department stores. In addition, there are other brands, such as ELIXIR, HAKU, Pure&Mild, and Za, which appeal to a wider range of middle, class consumers than the aforementioned prestige brands; they are distributed through specialty shops and drugstores (Tables 10.6 and 10.7)

The primary battlefields for top class imported cosmetics, such as Estée Lauder, Christian Dior, Chanel, SK II, and Lancôme, are high-end department stores. Shiseido’s products that compete in this space are their global brands Clé de Peau Beauté (CPG) and SHISEIDO. The AUPRES category, developed for the Chinese market and manufactured in China, is targeted at a marginally lower demographic and priced not only for the well-to-do class, but is within reach for professional women on a budget. In 2006, Shiseido began to compete with premium products from European and US cosmetics manufacturers by selling Supreme Aupres in the CNY 180–480 price range at high-end department stores in Shanghai and Beijing.

Table 10.6 Shiseido’s brand in China by channel type (as of 2012)

Category	Major brands	Distribution channels		
		Department stores	Chain stores	Drug stores
High prestige	Clé de Peau Beauté	+		
Prestige	AUPRES	+		
	SUPREME AUPRES	+		
	Global SHISEIDO	+		
Middle	ELIXIR SUPERIEUR		+	
	HAKU		+	
	TSUBAKI		+	+
	Uno		+	+
	Urara		+	
	Pure&Mild	+	+	
	Za		+	+
	AQUALABEL		+	+

Source: various reference materials

Note: DQ is sold in modern drugstores

Table 10.7 Prices of main products by Shiseido in China (as of 2009, in RMB)

Category	Cie de Peau Beaute	Aupres	Urara	Za
Eye shadow	650	115–260	75–90	78–88
Lipstick	480–550	120–140	55–95	80–88
Foundation	700–900	170–240	110–150	68–115
Cleansing foam	500	90–135	90	39–78
Lotion	820	100–200	130–140	98–128
Emulsion	920	105–210	135–150	98–138

AUPRES was originally developed to fill the enormous gap between high-end imported products and low-end Chinese products. However, with the successive entrance of foreign firms into the Chinese market, competition intensified with products geared more toward the masses than the top class products, such as L'oréal, Clinique, and Biotherm. In response, SLC completely redesigned AUPRES in 2008 to improve its competitiveness by targeting the “80s generation” (segment of the population that was born during the 1980s). AUPRES' new concept was that of the “blooming beauty,” or “the inner energy of beauty held by Chinese women that would blossom through AUPRES.” To further demonstrate the brand's exclusivity toward Chinese women, the company removed the “by SHISEIDO” logo from packaging when the product went on sale. Shiseido also used the consumption habits of the 80s generation by aggressively running promotions, particularly through word-of-mouth marketing. Shiseido promoted the strengths of its products through the Internet by having product ambassadors with clear, light skin record their opinions after using these products on blogs. Born during China's “one child” policy, most people born in the 80s have grown alongside the spread of the Internet in the country. Their values and preferences differ from previous generations, and their consumption habits are said to be similar to Japan's younger generation. They have no particular loyalty to luxury brands and value originality. Being very familiar with the Internet, their online shopping percentage is higher than that among other age groups, relying more on word-of-mouth than traditional commercials.

In 2004, Shiseido used its knowhow of specialty stores in Japan to begin a Shiseido chain store as its second pillar to the premium product business within department stores. Shiseido is currently developing markets in rural and small- and medium-sized cities in China's interior through direct sales by these chain stores. The chain store business comprises small retail stores and roadside shops that primarily sell medium-priced products. Shiseido's agreements with the chain stores are reviewed annually, and either side may terminate the agreement, although Shiseido aims to build long-term relationships of mutual trust. Shiseido provides marketing support and training to sales employees, while the stores are required to understand Shiseido's products to bring its sales to constitute 50 % of the stores' revenues and install point-of-sale terminals in the stores. Starting with an initial three stores in 2004, Shiseido expanded at a tremendous pace, with more than 6,000 stores as of October 2012. In the past, these stores sold products imported from Japan as well as the Pure&Mild brand, but began selling Urara in 2006, a chain store

brand that was made exclusively for Chinese women. Urara is currently a flagship product at the chain stores.

China's distribution channels are becoming more diverse, with channels such as superstores, drugstores, and convenience stores. Some drugstores are pharmacies with a pharmacist on duty, while others primarily sell toiletries. In the former, Drugstores are thought to be a promising distribution channel for cosmetics. For example, French Vichy entered the Chinese market in 1998, and currently holds contracts with 200 drugstores, through which it markets its products. Shiseido began selling the new "DQ" brand at drugstores in 2010 and is working on expanding the breadth of its channels.

10.6 Competition with Western Brands

Foreign brands are widely popular in the Chinese market. Foreign cosmetic manufacturers have a higher reputation for quality and reliability than domestic manufacturers, and foreign manufacturers, primarily P&G, Shiseido, L'oréal, and Estée Lauder, are competing for market share. For example, Estée Lauder has introduced its MAC and Bobbi Brown brands into the market, and P&G has done likewise with its SK II brand. Johnson & Johnson, L'oréal, and Shiseido have all created R&D centers in Shanghai. The cosmetics market in China is known to have several local brands, but the quality and brand name of those brands is in no comparison to foreign brands, leaving Shiseido to compete, for the meanwhile, with global western firms such as L'oréal, Estée Lauder, and P&G (Tables 10.8, 10.9, and 10.10).

P&G primarily manufactures and sells detergents, toiletries, and cosmetics, and is the world's largest consumer products company. The company entered the Chinese market in 1988 with sales of its Rejoy shampoo, and in 1989 with sales of its Olay brand skin care products. Rejoy enjoys approximately 40 % market share in China's shampoo market, while mass-market Olay brand cosmetics are among the top ten in the Chinese market.

Estée Lauder, headquartered in the US, manufactures and sells cosmetics, skin care products, hair care products, and perfumes. It entered the Chinese market in 1993 with its flagship Estée Lauder and Clinique brands. It primarily imports high-end cosmetics. In February 2010, Estée Lauder's CEO, Fabrizio Freda, remarked, "We currently sell in 40 Chinese cities, and are considering the sale of our products in 600 cities in the future. We will be making further investments in our skincare division, which is our most profitable business."

The L'oréal Group, headquartered in Clichy, France, is the world's largest cosmetics company. The company focuses primarily on cosmetics, hair coloring, skin-care, and perfumes; however, it is also active in the fields of dermatology and pharmaceuticals. The company entered the Chinese market in 1996, following P&G and Estée Lauder, and is rapidly gaining ground by acquiring local firms. It is distinctive in its wide range of products, from its high-end Lancôme cosmetics to the mass-market Maybelline brand. In 2003, it acquired the local cosmetics brand "Yue Sai," which sold its products in 80 department stores. In 2004, it expanded its

Table 10.8 Profitability of global cosmetics manufacturers (units: USD million)

	L'oreal SA	Estee Lauder	P & G	Shiseido
Total assets				
2005	28,180	3,886	61,527	5,698
2006	32,676	3,784	135,695	6,265
2007	33,920	4,126	138,014	6,785
2008	32,009	5,011	143,992	6,142
2009	32,375	5,177	134,833	6,173
2010	33,422	5,336	128,172	8,335
2011	37,332	6,274	138,354	8,902
Revenues				
2005	18,085	6,336	56,741	5,935
2006	19,830	6,464	64,416	5,941
2007	23,718	7,038	72,441	6,355
2008	24,383	7,911	79,257	6,897
2009	24,287	7,324	76,694	7,025
2010	27,099	7,796	78,938	6,924
2011	28,277	8,810	82,559	8,066
Cost of sales				
2005	4,879	1,426	25,920	1,326
2006	4,978	1,491	30,850	1,348
2007	5,869	1,570	33,667	1,400
2008	6,651	1,749	39,261	1,434
2009	7,175	1,882	38,690	1,748
2010	7,918	1,829	37,919	1,721
2011	8,134	1,937	40,768	2,029
SG&A expenses				
2005	9,180	3,998	18,010	3,962
2006	10,163	4,066	21,278	3,926
2007	11,985	4,512	24,180	4,160
2008	13,314	5,103	24,017	4,604
2009	13,529	5,024	22,630	4,769
2010	14,932	5,177	24,998	4,661
2011	15,567	5,784	25,973	5,503
Net profit				
2005	2,454	406	7,257	128
2006	2,588	325	8,684	216
2007	3,640	449	10,340	311
2008	2,865	474	12,075	194
2009	2,495	218	13,436	197
2010	3,116	478	12,736	362
2011	3,393	701	11,797	154

Source: S&P Compustat Database (global version)

Table 10.9 Shares of global cosmetic manufacturers in global market (%)

Company	Country	2004	2005	2006	2007	2008	2009	2010	2011
Procter & Gamble	USA	8.9	12.9	12.1	12.0	11.8	11.7	11.6	11.4
L'oreal Group	France	9.7	9.7	9.8	10.0	10.2	10.0	9.7	9.7
Unilever Group	UK	7.5	7.1	6.4	6.4	6.4	6.5	7.1	7.7
Colgate-Palmolive	USA	3.9	3.9	3.6	3.7	3.7	3.6	3.7	3.8
Avon Products	USA	3.3	3.3	3.0	3.1	3.2	3.3	3.3	3.2
Beierdorf AG	Germany	2.9	3.0	2.9	3.2	3.3	3.3	3.2	3.1
Estee Lauder Cos	USA	3.9	3.8	3.4	3.2	3.1	3.0	2.9	2.9
Johnson & Johnson	USA	2.0	2.1	2.9	2.9	2.9	2.9	2.9	2.8
Shiseido Co	JP	2.8	2.7	2.4	2.3	2.3	2.4	2.5	2.5
Kao	JP	1.6	1.6	2.3	2.0	2.0	2.2	2.1	2.1

Source: Euromonitor International (2011)

Table 10.10 Shares of global cosmetic manufacturers in Chinese market (%)

Company	2004	2005	2006	2007	2008	2009	2010	2011
Procter & Gamble (Guangzhou)	16.7	18.0	19.0	18.4	17.3	16.7	16.4	15.9
L'oreal China	6.2	6.8	7.0	8.1	9.2	9.8	10.5	11.0
Shiseido Liyuan Cosmetics	2.4	2.6	3.8	4.4	4.7	5.0	5.3	5.4
Unilever China Ltd	6.2	6.2	4.7	4.3	4.5	4.4	4.4	4.5
Amway (China)	5.8	5.1	3.7	3.6	4.1	4.3	4.0	3.9
Colgate (Guangzhou)	3.8	3.5	3.8	3.6	3.5	3.4	3.4	3.4
Hangzhou Mary Kay Cosmetics	1.5	2.1	2.1	2.2	2.4	2.9	3.1	3.2
Beiersdorf AG			0.8	2.9	3.0	3.1	3.1	2.9
Johnson & Johnson China	1.9	2.0	2.1	2.1	2.9	2.6	2.5	2.4
Estee Lauder			0.7	0.9	1.1	1.4	1.6	1.8
Avon (China)	3.8	3.4	2.8	3.1	3.0	2.7	1.6	1.1
C-Bons Group	2.2	2.0	1.6	–	–	–	–	–

Source: Euromonitor International (2011)

presence in China by acquiring the mass-market “Mininurse” brand, which had 280,000 sales outlets for its cosmetics in bulk retailers and other channels.

The Chinese cosmetics market is concentrated along coastal regions such as Shanghai, accounting for 90 % of cosmetic sales in China. Western cosmetic manufacturers spend vast sums on advertising centered on large cities, promoting their brands in sales channels such as department stores, drugstores, supermarkets, hypermarkets (stores that combine supermarkets and department stores), and general stores. For example, in 2004, P&G bid the highest price to advertise during China’s Central Television’s prime time.

However, in September 2006, products in the SK II lineup (owned by P&G’s Max Factor) were found to have banned substances in them, forcing the company to accept returns and halt further sales. This incident stemmed from chromium and neodymium, the use of which is banned in China, being detected in nine SK-II

products, resulting in directions from the Chinese General Administration of Quality Supervision, Inspection and Quarantine (ASQIQ) to quarantine products imported from Japan (SK-II was originally a sub-brand of Japan's Max Factor that was acquired by P products sold in China under this brand were thus imported from Japan). Finally, the Chinese government issued a statement that the chromium and neodymium detected in these products were originally in the products' raw materials, posing no threat to the human body. Still, the damage was done on SK-II's brand image. After the Chinese government's directives were issued that September, there were incidents of refund-seeking consumers causing damage to certain stores, and the media calling P&G, which did not respond to requests for refunds, a "Bàwáng," or tyrant of the worst kind, which caused further problems.

This displays the necessity of heeding unforeseen risks caused by governments. Quality inspections on imported cosmetics have recently become more stringent, and as a result, new product introductions into the Chinese market are said to be substantially behind schedule. The fault also lies with the complexity of permits and licensing systems. Counterfeit goods are also a source of trouble for manufacturers. Shiseido has contracted with multiple law firms and to gather information regarding counterfeit products. After gaining sufficient numbers, it contacts the appropriate bureaucrats and government agencies, thereby seizing counterfeit manufactured products.

Despite the Chinese market's many issues, its scale as the world's largest cosmetics market is also expanding rapidly. Shiseido perceives the Chinese market as a pillar of its overseas strategy and is in the process of securing itself as a global cosmetics manufacturer representing Asia, while confronting the risks posed by China. Competing with western megabrands in the Chinese market can be perceived as a preliminary battle for business in other emerging nations, where much future growth in new cosmetics markets is expected.

10.7 Significance of This Case Study and Suggested Questions

This case study describes Shiseido's business in China from the 1980s, focusing particularly on the company's marketing strategy. Shiseido entered the Chinese market at the behest of the Beijing government and expanded its market by modifying its marketing strategy in response to changes in the marketplace. Shiseido's first success in China came from the AUPRES brand, exclusively developed for that market. Because it was produced in China, it would have been more beneficial for the company to increase its number of retail outlets as much as possible to keep factory utilization high. Instead, it limited its channel growth to establish its image as a high-end brand. The company clearly differentiated the AUPRES brand from SHISEIDO, a global brand popular among the wealthy, and developed products in the middle segment between high-end imported products and cheap domestic products.

However, P&G, Estée Lauder, Lancôme, and other powerful foreign brands have also entered the market, making competition more intense. SHC is increasing its product line and executing marketing strategies for each product level. Unlike the western cosmetic manufacturers, Shiseido has developed its own unique channel in the form of specialty shops and aims to reach a wide range of consumers. It is a business model developed in Japan that has been imported to China. Additionally, Shiseido has recently begun selling its products in drugstores and over the Internet, increasing its products' reach and distribution channels.

Using this case study, the following questions can be considered to further deepen the understanding of global strategy.

- Compared with Europe and the US, what are the merits and demerits of Shiseido expanding its cosmetics business in China? From Japan's perspective, is the gap between the Chinese and western markets, as described by the CAGE framework, larger than that between the cosmetics markets in China and Japan?

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- Describe the marketing strategy for one of Shiseido's products in China. How are customers segmented and how does Shiseido view its target customers? Describe the four Ps (product, price, place, and promotion) of marketing as they apply to Shiseido in China.
- How do Shiseido's marketing strategies differ from other large players in the Chinese market (L'oréal, P&G, etc.)? As competition becomes more intense in the Chinese market, should Shiseido continue down the same path?
- Shiseido aims to be a "global player representing Asia," and seems to be following a strategy that differentiates itself from large western players. Looking into global market trends over the next 5–10 years, do you think this strategy of differentiation is appropriate?

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